VZCZCXRO8471
PP RUEHMA RUEHPA
DE RUEHUJA #0164/01 0251622
ZNR UUUUU ZZH
P 251622Z JAN 07
FM AMEMBASSY ABUJA
TO RUEHC/SECSTATE WASHDC PRIORITY 8431
INFO RUEHOS/AMCONSUL LAGOS PRIORITY 6000
RUEHWR/AMEMBASSY WARSAW 0089
RUEHCD/AMCONSUL CIUDAD JUAREZ 0087
RUEAUSA/DEPT OF HHS WASHDC
RHMFISS/CDR USEUCOM VAIHINGEN GE
RUFOADA/JAC MOLESWORTH RAF MOLESWORTH UK
RUEKJCS/SECDEF WASHDC//USDP/ASD-HD//
RUCPDOC/DEPT OF COMMERCE WASHDC
RUEHZK/ECOWAS COLLECTIVE

UNCLAS SECTION 01 OF 04 ABUJA 000164

SIPDIS

SENSITIVE
SIPDIS

E.O. 12598: N/A
TAGS: ECON EPET ENRG EINV PGOV NI PETROL
SUBJECT: NIGERIAN PARADOX - PETROL SHORTAGES

REF: LAGOS 39

ABUJA 00000164 001.2 OF 004

¶1. (SBU) SUMMARY: Long gasoline queues have become endemic in the past two months. The Nigerian National Petroleum Corporation (NNPC) insists that the product stock available is enough to serve the entire country and that pipeline vandalisms is causing the supply hiccups. Pipeline sabotage has increased and is having a debilitating effect on fuel supply and the economy. It is not clear the GON has a plan to deal with continuing problems. END SUMMARY.

Petrol Queues

¶2. (U) Fuel queues started across the country beginning in December. The media reported that the problem was due to an artificial scarcity caused by the hoarding of petroleum products by retailers. In the past, retailers hoarded petrol in anticipation of a price hike and historically price hikes have come in January. As reported in reftel, petrol scarcity has led to astronomical increases in prices and a black market. In some parts of the country petrol sells for as much as 300 naira in the black market and at the pumps it sells for well above the official price of 65 naira.

Agricultural Production Affected

¶3. (U) Due to the petrol shortage in Jos, a farm that supplies produce to the Embassy community reported farmers cannot run irrigation pumps or transport produce creating shortages of and higher prices for carrots, cabbages and potatoes. The high cost of petrol has led to an increase in transportation costs and commodities prices in general. A journey from Lagos to Ibadan before cost 500 Naira, but now costs as much as 1,500 Naira. In addition, the long lines at petrol stations have resulted in lost employee work hours as people wait in queues six hours or more to buy fuel when it is available.

MAJOR OIL PRODUCER = SHORTAGES??

¶4. (U) According to the Energy Information Administration of the U.S. Department of Energy, Nigeria is the tenth largest producer of crude oil in the world and the largest in Africa. At the same time, life in Nigeria is characterized by erratic supply of petroleum products. Shortages are not new. Nigeria experienced occasional acute petroleum products shortages, especially in 1974 and 1975. In the past, the GON set up a judicial commission of enquiry to unravel

the causes and suggest solutions. Previous commissions found that the lack of effective distribution channels and facilities was a fundamental factor. The commissions recommended the urgent provision of a pipeline system and storage depots, engendering the present oil pipelines and depots in Nigeria. This alleviated the problem until 1986, when domestic production could not meet demand, requiring petroleum products import.

Sources of Petroleum Products

¶5. (U) There are two sources of petroleum supply in Nigeria - local refineries and imports. There are four refineries in the country: Port Harcourt I, Port Harcourt II, Warri and Kaduna. The four refineries have a combined capacity of 445,000 barrels per day (bpd), and a refining capacity of 18 million liters of gasoline per day (lpd) when working at full capacity. Currently, national demand is 30 million lpd. The remaining 12 million liters is supplied by imports. Due to mismanagement and poor maintenance, the refineries routinely operate below capacity, sometimes requiring importing the total volume of national demand. The NNPC has reported that the refineries operate at near 70% capacity, but experts told us that these claims are much too high.

Storage of Petroleum Products

¶6. (U) The NNPC, major marketers, and independent marketers are the three major owners of storage and dispensing facilities. The NNPC owns 22 facilities/depots while the major and independent marketers each own one major facility. The combined holding capacity in cubic meters for petroleum product depots in Nigeria are: 1,284,290 for gasoline; 708,900 for kerosene; 1,084,900 for diesel; and 85,500 for aviation fuel. Functioning at optimum levels, the depots can hold a stock of refined products equal to 30-90 days of national supply. Presently, the Atlas Cove Terminal, an offshore terminal and the

country's main petroleum products import receiving facility, is in a state of disrepair and not functioning. Additional constraints include inadequate tugboats or pilot cutters for berthing and un-berthing vessels; shallow and winding approach channels; and the draught and overall vessel length allowed in most berths. These constraints have resulted in delayed ships and increased demurrage, exacerbating shortages.

Petroleum Product Distribution

¶7. (U) The NNPC controls the distribution of petroleum products through its subsidiary, the Pipelines and Products Marketing Company (PPMC). Petroleum products are distributed via pipelines, road, rail, and sea. The pipeline network is made up of multipurpose lines and dedicated lines. PPMC uses the 5,001 kilometer multipurpose network to move products from the refineries and imported products from receiving jetties to 21 storage depots nationwide. Pipelines transport 70% of gasoline and 68% of kerosene. Other means are used to transport low pour fuel oil (LPFO), high pour fuel oil (HPFO), base oil, asphalt, wax, sulphur, and petroleum chemicals (PC). Based on the latest figures, 36% of the products from Port Harcourt refinery were moved via the pipelines system, and the percentages for Warri and Kaduna were 47% and 49% respectively. Seventy percent of the products were transported from the refineries to the depots by pipelines and the remainder was shared between road and rail.

Road, Rail and Marine Transportation

¶8. (U) Due to the decrepit state of roads and the poor condition of trucks in Nigeria, transporting petroleum products by road is slow, unsafe, unreliable and expensive over long distances. As a result, petroleum products have been transported by road for short haulage distances. Increased pipeline vandalism has increased the volume transported by road and some experts estimate it is now up to 78-82% of domestic consumption, exacerbating shortages. Rail

transportation is the least expensive means of transporting petroleum products, but the near collapse of the Nigerian railway system has not made it a viable alternative. Its very slow speed and unreliability limit rail transport even in periods of serious pipeline outages. The PPMC also supplies products to some locations by sea using spot-charter vessels. However, jetties at Okrika, Calabar, Warri, Atlas Cove and Apapa, crucial for successful maritime operations are old and in poor condition, hampering the movement of products by marine vessels and from the coastal refineries of Port Harcourt and Warri.

Additional Distribution Factors

¶9. (U) An important factor affecting the efficient distribution of petroleum products is the concentration of oil resources in the Niger Delta region. Although Kaduna refinery is in the north and depots are located across the country, depots and pipeline locations are not optimal, and the connectivity and accessibility of the country's pipeline network is poor. The PPMC has the sole responsibility for marketing and distributing petroleum products, as well as managing a 5,001 kilometer pipeline network and associated depots. This leaves no room for healthy competition. The reliance on imports to meet local demand puts excessive stress on the limited import facilities and infrastructure.

NNPC Blames Sabotage

¶10. (SBU) Funso Kupolokun, Group Managing Director of NNPC discussed the shortages with us. Kupolokun claimed the shortages were caused by the recurrent destruction of pipelines by vandals, predominantly in three areas crucial to petroleum product distribution - Port Harcourt, Warri and Mosimi. In Port Harcourt from January to September 2006 more than 1,650 line breaks occurred compared to 600 in 2003. In the Warri area 600 breaks were recorded in 2006 compared to 100 in 2003. The Mosimi area, in the south-west, recorded 50 breaks in 2003 but reported 375 between January and September 2006. In the past pipeline breaks in the north were rare but now Kaduna and Gombe have been affected by frequent pipeline breaks. He said even if the refineries were working at full capacity, it would not help since criminals can easily break into pipelines.

¶11. (SBU) The Kaduna and Warri refineries had been shut down since

February 2006 as a result of the sabotage of the Escravos Warri pipeline that transported crude oil to both refineries. Prior to the destruction of the pipeline, both refineries operated at about 75% capacity producing about 8 million liters of gasoline per day, according to Kupolokun.
The NNPC had to rely on imports to meet the shortfall arising from production loss. There was a limit to the volume of imported products the country's import facilities could handle when the two refineries were down. Within days the disruptions were noticed on the streets. Normally in the event of small supply disruption, strategic reserves were triggered from the various depots, however, since vandalized pipelines have not been restored strategic reserves had fallen.

¶12. (SBU) Austen Oniwon, Head of Research and Development of the NNPC said that he believed the vandals were part of an organized crime network that knew when petrol was passing through the lines and had sophisticated equipment to cut the pipelines and discharge the product into trucks of 33,000 liters capacity. Oniwon said "it is impossible to rule out the connivance of NNPC staff in the act of sabotage because the staffers are the only ones that know the type of product passing through the lines at any point in time."
Regarding public charges that there was a shortfall in gasoline imports, because the NNPC anticipated a lower than actual demand during the Christmas holidays, Oniwon commented that technically there was a shortfall but it should not have been noticeable because the NNPC kept an 11-day reserve stock. At the moment there were vessels on the high seas waiting to discharge petroleum products, but the damaged pipelines at the Atlas Cove terminal made it

impossible to pump product to storage depots.

¶13. (SBU) The Atlas Cove terminal was the only facility that could handle 30,000-ton vessels, but it was not in use because of damage. It was recently repaired but then damaged by vandals. Apapa port in Lagos, which was the alternative to Atlas Cove, could only handle vessels not exceeding 9,000 tons thereby requiring the discharge of products into smaller vessels before it could be unloaded at the Apapa port. This cumbersome process takes extra time. Whenever a pipeline was sabotaged, the NNPC must stop pumping petroleum products from the storage depot that feeds the pipeline, resulting in local shortages that must then be supplied by truck.

Are GON Price Hikes Imminent?

¶14. (SBU) Oniwon said he was unaware of a plan to increase prices. Since the international price of crude oil hovered below $55 per barrel, an increase in the domestic price of petroleum products could not be justified. If the international price had remained around $75 per barrel an increase would be justified. Despite Oniwon's assertion, the GON made a commitment to the IMF to increase fuel prices in early 2007 and reduce the fuel subsidy to 1.25% of non-oil GDP during the recently concluded second review of Nigeria's Policy Support Instrument (PSI).

¶15. (SBU) The GON had planned to increase prices over the Christmas holiday season, but was foiled by the Nigeria Labor Congress (NLC), according to Adams Oshiomhole, outgoing President of the NLC. He claimed retailers hoarded petroleum products in anticipation of an increase to earn larger profits. Oshiomhole's assertions were seconded by Benson Upah of the NLC, who told us the ruling party wanted to use the proceeds of the fuel price hike to fund its election campaign.

NNPC Fails to Compensate Importers

¶16. As reported in reftel, licensed importers Total, Texaco, Oando, and MRS Oil and Gas stopped importing petroleum products in late 2006 because GON subsidy arrears had accumulated into the billions of naira. Dr. Oluwole Oluleye, Executive Secretary Petroleum Products Pricing Regulatory Agency (PPPRA), told the media that the PPPRA had commissioned auditors to investigate the claims of the importers and that once the investigation was complete importers will be paid their claims. The media reported that approximately 19.5 billion naira was owed to importers and that 17.8 billion naira in arrears was paid the week of January 15.

¶17. The NNPC recently met with major oil marketers to seek a temporary solution to the lingering shortages. The NNPC and major oil marketers agreed to deploy seven private import reception jetties for three months to receive petroleum products. The major marketers have agreed to designate some gas stations as special

outlets to the public, which will work beyond normal hours to clear the backlog demand. These will include Obat Petroleum, Folawiyo Petroleum, Wabeco and Total, all in Lagos; and the Oando facility in Onne.

Comment

¶18. Nigeria, a major oil producer, cannot guarantee a steady supply of refined petroleum products for domestic use. The four state-owned refineries have not worked at full capacity since 1999 and some experts claim close associates of top government officials are benefiting from imports. The deregulation of the downstream petroleum sector is only complete, perhaps due to these vested interests in imports. Eighteen private refinery projects were licensed in Obasanjo's first term, however, none have been built. Most Nigerians still expect a price hike. Our contacts point the finger at the failure to address pipeline sabotage. So far the NNPC's strategy has sought to appease those in pipeline areas by paying local village hunters and enlisting Nigeria's corrupt and

inefficient police to protect the pipelines. The main culprit is presumably import bottlenecks both physical and financial due to lack of cash at importers due to arrears in subsidy payments.

CAMPBELL